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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The Recovery Stalls . . .

The on-again, off-again economic recovery has suffered another setback. The index of leading economic indicators declined by 0.9 per cent in August, following four monthly gains in a row. The index of coincident indicators which moves in tandem with the economy continued its slide; it has been declining on balance for over a year. Both statistics indicate that widely-voiced reports of the recession's demise at midyear were greatly exaggerated and any sustained expansion in economic activity will probably not commence until well into the current quarter—if not next year.

Of the ten available statistics which comprise the index of leading indicators, five contributed to the decline. The most unwelcome news came from those figures dealing with the unemployment picture. The number of people applying for unemployment insurance soared nearly 20 per cent in August compared with July. In early September, their ranks swelled even further, as initial claims averaged a seasonally adjusted 658,000 per week, up from 606,000 the month before. Indeed, during the week ending on September 18, initial claims rose to a seasonally adjusted 703,000—the highest level in the history of the series. Ominously, the average workweek of manufacturing employees was shortened in August for the first time in five months—portending further layoffs.

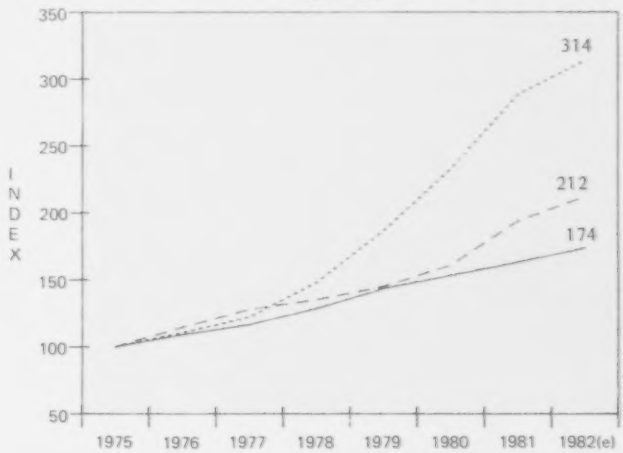
Persistently high unemployment has depressed people's spirits and seems to have had a devastating impact on their buying habits. Apprehensive about the future, consumers have curtailed borrowing and cut back spending. According to the Conference Board's survey of consumer attitudes and buying plans, consumer confidence soured in September, as the Board's confidence index plunged to 53.5 (1969-70=100) from 61.6 just two months earlier. The buying plans index sank by more than 17 points during this time period to less than 75, as fewer people voiced intentions to buy a car, a home, major appliances or home furnishings.

. . . Waiting For A Push . . .

To be sure, people have not curtailed spending in all areas. They continue to purchase more services and nondurable goods, while postponing purchases of big-ticket durables, such as autos and housing related items. However, if a rebound in economic activity is to take place, its timing and intensity remain pinned to the fortunes of these two industries—automobile and housing.

Sales of new cars perked up early in September, averaging 6.8 million units at a seasonally adjusted annual rate during the first two ten-day selling periods. This is a substantial improvement over the weak pace of the previous three months, when cars sold at a poor five million unit clip. Whether this upward momentum can be sustained, however, remains to be seen.

AVERAGE MONTHLY MORTGAGE PAYMENT (DOT) AND AVERAGE MONTHLY AUTO LOAN PAYMENT (DASH) VS. MEDIAN FAMILY INCOME (LINE) (1975=100)



Some indicators considered to be harbingers of near-term performance of the auto industry show reason for optimism. A glance at consumer balance sheets suggests that car sales could pick up soon. People have curtailed borrowing during the past year and real incomes have increased as inflation has slowed. The average age of cars on the road is now about seven years, the highest since just after World War II. What is more, the cost of operating and maintaining a car has remained

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virtually unchanged since last December. However, the negative factors continue to outweigh the positive ones.

. . . From Automobiles . . .

Probably the single most important deterrent to domestic car sales has been affordability. As manufacturers sought to pass the cost of developing new lines of more fuel-efficient cars on to buyers, the average price of a new car (including imports) has jumped sharply, more than doubling since 1975. When this increased cost is combined with the escalation in interest rates, monthly payments have ballooned even faster, outpacing by far the growth in median family income. (See chart on page 1.)

In an attempt to slow the rapid growth in monthly payments, buyers have been stretching out maturities of new car loans. In early 1977, for example, only 20 per cent of new car loans obtained at finance companies were contracted for more than 42 months. This proportion expanded to 54 per cent in February, 1979; currently over 80 per cent of new car loans extended by finance companies are written for more than 42 months.

Traditionally, sales are at their yearly highs in the fall, following the unveilings of new models. However, manufacturers no longer wait until late September to introduce new models. A new sell-when-they-are-ready approach is replacing the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/22/82	% Change Since Week Ago	% Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	141.198	+ .952	+ 8.282
Loans to Depository Inst.	.809	– .520	– .639
Float	2.225	– .058	– 1.230
Total Reserve Bank Credit	153.767	+ .733	+ 7.437
Treasury Deposits with Federal Reserve Banks	3.611	+ .143	+ .259
Currency Outside Banks	132.704	+ .191	+ 8.660
Member Bank Reserves:			
Required	40.002	+ .769	– .392
Excess (Deficiency)	.204	– .104	– .073
Total Reserves Held	40.206	+ .665	– .465
Net Borrowed Reserves	.505	– .427	– .436
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.486	– 2.905	+ 4.812

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	461.0	+ 6.6‡	+ 6.6‡
M2 (August '82)	1,946.2	+ 10.3	+ 9.8
M3 (August '82)	2,355.7	+ 13.4	+ 10.8
L (May '82)	2,773.2	+ 12.3	+ 11.7

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 10/1/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.30%	8.55%	9.35%
* Federal Agencies	8.25	9.15	10.50
* Project Notes—Taxfree (46% Taxable Equivalent)	8.33	9.35	11.11
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.40	10.65	11.45

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	10.00%	Nov.	9.90%
15- 29 days	10.00	Dec.	10.00
30- 59 days	10.00	Jan.	10.10
60- 89 days	10.13	Feb.	10.25
90-179 days	10.13	Mar.	10.10
180-239 days	10.13	Apr.	10.05
240-270 days	10.13		

‡Industrial Paper—Prime			
30- 89 days	10.13%	†Federal Funds	
90-120 days	10.25	Effective Rate	10.50%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,045	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,478	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	2.1	– 5.1	– 1.5
Change in Consumer Prices (all urban consumers)*	Aug '82	3.6%	7.2%	9.6%
Change in Producer Prices*	Aug '82	7.2%	7.2%	3.6%
Civilian Employment (Thousands of Persons)†	Aug '82	99,839	99,732	100,840
Unemployment as % of Civilian Labor Force†	Aug '82	9.8%	9.8%	7.3%
Personal Income*	Aug '82	$ 2,601	$ 2,593	$ 2,460
Leading Indicators Composite Index (1967=100)†	Aug '82n	128.6	129.8	134.1
Industrial Production Index (1967=100) †	Aug '82	138.0	138.7	153.6
Net Change in Consumer Installment Credit†	Jul '82	$ 0.57	$ 1.35	$ 1.55
U.S. Merchandise Trade Balance †	Aug '82n	–$ 7.08	–$ 2.42	–$ 5.37
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Aug '82	1,002	1,195	946
New Construction Expenditures*	Aug '82n	$ 232.3	$ 228.7	$ 235.9
Total Business Inventories†	Jul '82	$ 513.4	$ 512.8	$ 504.7
Total Business Sales†	Jul '82	$ 345.4	$ 345.6	$ 355.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

fall introduction as automakers rush to bring competitive products to a rapidly changing market. In any case, the few new models this fall will largely be carry-overs from the 1982 model year, sparking little of the enthusiasm of yesteryear.

. . . And Housing

Although mortgage interest rates have edged down in the last six months, the drop has not yet produced any improvement in residential construction or home sales. However, there are some positive signs. Many real estate agents are reporting a surge in buyer interest. But with mortgage rates still hovering around 16 per cent and added points and other fees raising the effective rate even higher, interest rates must fall well below current levels before a significant improvement in the housing industry can occur.

Despite the depressed levels of new home sales, the median price of a new home rose in August to a record $73,200. As a result, the monthly payment required to service a 25-year conventional mortgage, assuming a 25 per cent down payment, now approaches $800. Applying the rule of thumb that the monthly payment should not exceed 25 per cent of a family's gross monthly income, some 85 per cent of potential first-time buyers can not afford to buy a new home. When taxes and insurance are included, the proportion rises even higher.

(Continued on back page)

Short Term Paper Outstanding

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/15/82)	146,755	– 521	+20,106
New York City (9/15/82)	39,095	– 555	+ 8,172
Commercial Paper (9/15/82)	172,448	+ 1,262	+12,194

Bank Loans

	Latest Week	Change Since Week Ago	Change Since Year Ago
Commercial and Industrial Loans			
Weekly Reporting Large Commercial Banks			
Nationwide (9/15/82)	216,075	+ 3,043	+30,397
New York City (9/15/82)	61,381	+ 1,492	+ 7,197
Total Loans Gross Adjusted			
Nationwide (9/15/82)	497,713	+ 3,754	+44,384
New York City (9/15/82)	119,329	+ 1,653	+10,965

Financial Markets

	Friday 10/1/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.50%	– .44	– 7.50
180-Day Bills†	9.07	– .68	– 6.78
Longest Bills†	10.10	– .49	– 5.93
Recent Issues:			
12 1/8s 9/30/84	11.25	– .52	
12 1/4s 9/30/86	11.55	– .51	
13 3/4s 5/15/92	11.95	– .36	
14s 11/15/11	11.63	– .27	
Municipals:			
Bond Buyer–20 Bond Index* (9/30/82)	10.48%	– .10	– 2.45
Blue List Total ($ Million)	$1,177	– $ 38	+ $ 441
30-Day Visible Supply ($ Million)	$2,821	+ $203	+ $ 990
Total	$3,998	+ $165	+ $1,431
Corporates:			
Moody's Aa Composite (9/30/82)	13.43%	– .03	– 3.03
30-Day Visible Supply ($ Million) ‡	$1,112	– $397	NA
Stocks:			
Dow-Jones Averages:			
Industrials	907.74	– 11.78	+ 47.01
Transportation	365.03	– 4.57	– .41
Utilities	115.91	– 1.15	+ 13.10
65 Stocks	353.76	– 4.38	+ 16.54
Standard and Poor's 500 Stocks	121.97	– 1.35	+ 2.61
N.Y.S.E. Composite Index	70.01	– .74	+ 1.15
N.Y.S.E. Avg. Daily Vol. for Week (000's)	60,242	– 8,262	+ 10,566

* 46% Taxable equivalent 19.41%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

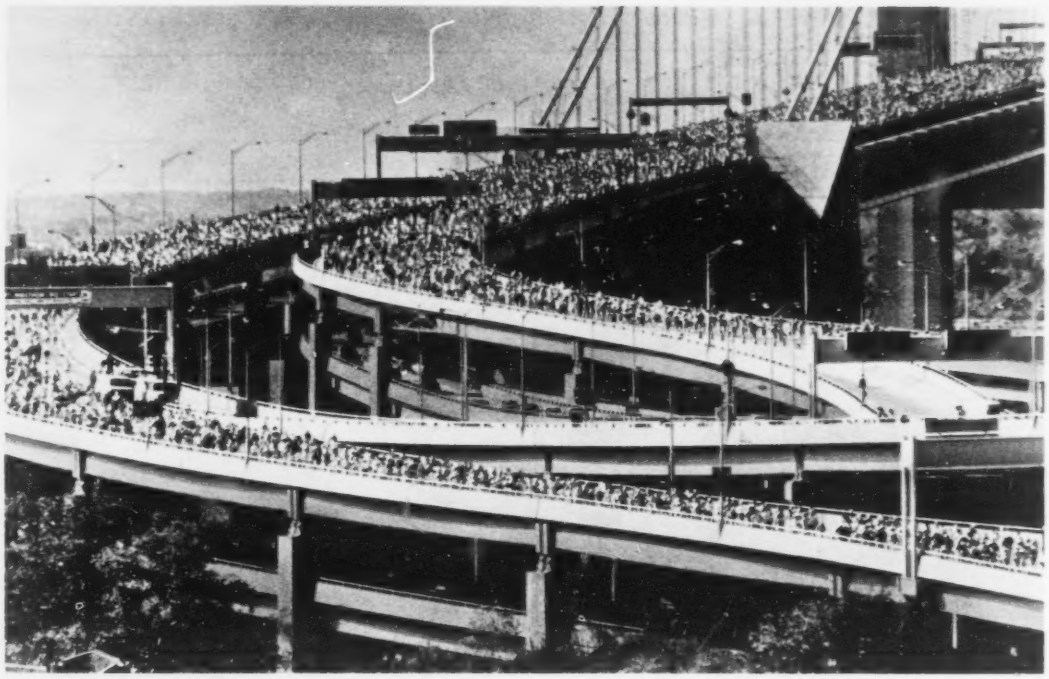
EURODOLLAR DEPOSIT RATES (bid)	Friday 10/1/82	Week Ago
Overnight	11.88%	10.63%
1 month	11.00	11.25
3 month	11.50	11.69
6 month	11.94	12.31
1 year	12.19	12.31
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.10%	13.25%
Long Term (7 to 15 yrs.)	13.25	13.45

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/1/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02042	48.97
Canada	.8090	1.2361
Denmark	.1133	8.8275
France	.1402	7.1325
Germany	.3963	2.5235
Italy	.0007039	1420.70
Japan	.003723	268.60
Mexico	.01081	92.50
Netherlands	.3622	2.7610
Switzerland	.4607	2.1708
U.K.	1.6965	.5894

The sharp rise in average monthly payments in the past several years (see chart on page 1) has quickly changed the characteristics of the typical home-buyers. They are now older, more affluent, and most have previously owned a home. Whereas first-time buyers made up 36.0 per cent of the market in 1979, in 1981 they accounted for only 13.5 per cent. Their median income rose from $28,100 in 1979 to $39,200 in 1981. The median age has risen from 27 years in 1979 to 28 in 1981.

Since the hopes of the housing industry rise and fall with swings in interest rates, the expected recovery in this industry may be the mildest in over two decades. Mortgage interest rates are not expected to come down to low enough levels to give a significant boost to new construction or home sales before the second half of 1983, at the earliest. ■



The New York City Marathon, co-sponsored by Manufacturers Hanover

The marketplace demands sustained effort.

Manufacturers Hanover strives.

Winning a 26.2 mile marathon takes planning, positioning, and endurance. And in much the same way, Manufacturers Hanover's planning, positioning, and willingness to accept challenges are paying off significantly.

For example, our subsidiaries now have more offices nationwide than any other bank holding company, giving us instant access to both large and middle market companies. This enables us to provide other financial services besides banking—factoring, equipment financing, and mortgage lending.

But the race is far from over. As the need arises for new kinds of financial relationships, Manufacturers Hanover will be prepared to supply whatever the national—and international—marketplace demands. Consider the source.

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